

Factsheet 31 August 2018

NIKKO AM NZ INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail)

Market Overview

- NZ bonds performed strongly as interest rates moved lower in yield.
- The NZ bond market continues to perform strongly compared to offshore bond markets
- US Long term interest rates were stable over the month.
- US short term interest rates continue to rise.

Fund Highlights

- The fund returned 1.29% (net of tax before fees and expenses), outperforming benchmark.

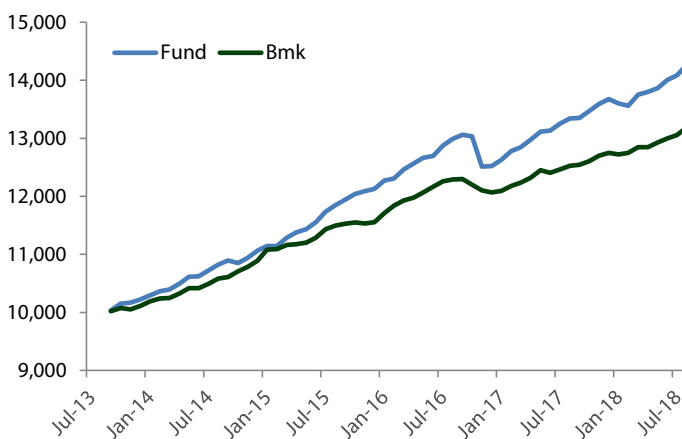
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	1.20%	2.65%	5.83%	5.30%	6.30%	6.90%
Benchmark ²	1.02%	2.02%	5.31%	5.49%	7.27%	8.63%

1. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)

2. Benchmark: Composite of (from 1 July 2016) of 70% Bloomberg NZBond Govt 0+ Yr Index and 30% Bloomberg NZ Bond Bank Bill Index plus 4%pa. No tax or fees.

Five Year Cumulative Performance^{1&2}



Portfolio Manager

Fergus McDonald,
Head of Bonds and Currency



Fergus is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981. The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager.

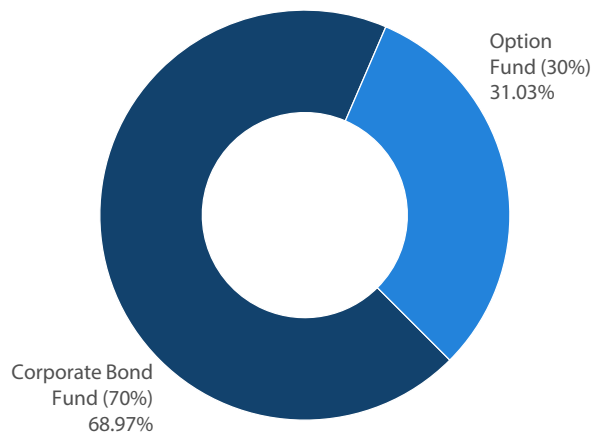
Overview

The Fund aims to provide investors with regular income from an actively managed investment portfolio while protecting the capital value of investors' funds.

Objective

The aim is to construct a portfolio that earns a return of 6.5% per annum over a rolling three year period before fees, expenses and taxes.

Asset Allocation



Top 5 Corporate Issuers)*	(%)	Credit Quality	(%)	Yield – Corporate Bond Fund
Kiwibank	10.28	AAA	1.84	Fund (gross) 3.26% vs Benchmark 2.03%
Westpac Banking Corporation	9.20	AA	54.61	
ANZ Bank	8.29	A	16.57	
Bank of New Zealand	7.71	BBB	18.29	
ASB Bank	7.21	NR (incl options)	8.69	

Option Fund Commentary

The fund returned 1.6% over August. We continue to sell option contracts on 10-year US treasury bonds to earn income to enhance the income received from investing in a portfolio of short duration NZ Bank bonds.

Interest rate movements on treasury bonds were modest over the month, trading in a 17 basis point range from a high of 2.98% to a low of 2.81%. Movements of these magnitudes are not large enough to cause any options to be ‘struck’ so even though the income received from selling options remains subdued, it is sufficient for the fund to earn an acceptable level of return.

If current levels of volatility are maintained, income generated by the fund should remain at satisfactory levels however the speed and magnitude of yield changes in the US 10-year Treasury bond will continue to determine the total return of the fund in the months ahead.

Corporate Bond Fund Commentary

The fund underperformed the NZ government benchmark, returning 1.15% with the underweight positioning in long maturity bonds and overall moderate short duration positioning a small negative. On the positive side the higher running yield and performance of the credit holdings helped.

Key Fund Facts

Distributions

Retail fund: Calendar quarter

Estimated annual fund charges

Retail fund: 1.05%, refer PD for more details

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread:

0.0% / 0.0%

Strategy size

\$12.57m

Strategy Launch

October 2007

Compliance

The Fund complied with its investment mandate and trust deed during the month.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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